

Montana Department of Revenue
Liquor Control Division
29.75 FTE

Liquor Control

Operations Manager (1.00)
Administrative Services Manager (1.00)

Liquor Distribution

Program Manager (1.00)
Management Analyst (1.00)
Public Relations Specialist (1.00)
Compliance Specialist (1.00)
Purchasing Agent (1.00)
Accounting Technician (1.00)
Administrative Assistant (1.00)
Forman (1.00)
Forklift Operator (2.00)
Pallet Jack Operator (4.00)
Repacker (2.00)
Warehouse Worker - Aggregate (0.50)

Liquor Licensing

Program Manager (1.00)
Lawyer (1.00)
Purchasing Technician (1.00)
Compliance Specialist (6.50)
Compliance Technician (1.75)

EXHIBIT 3

DATE 02/06/13

HB 2

Montana Department of Revenue
Citizen Services and Resources Management Division
53.50 FTE

Citizen Services and Resource Management

Operations Manager (1.00)
Administrative Services Manager (1.00)

Citizen Services

Program Manager (1.00)
Editor (2.00)
Administrative Specialist (1.00)
Customer Service Supervisor (1.00)
Customer Service Assistant (9.00)

Collections

Program Manager (3.00)
Program Specialist (1.00)
Collections Specialist (8.00)
Collections Technician (12.00)
Auditing Technician (1.50)

Financial and Asset Management

Program Manager (1.00)
Administrative Services Manager (1.00)
Logistics Technician (1.00)
Purchasing Technician (1.00)
Accountant (5.00)
Accounting Technician (3.00)

Montana Department of Revenue
Business and Income Taxes Division
133.45 FTE

Business and Income Taxes

Operations Manager (1.00)
Administrative Services Manager (1.00)
Management Analyst (2.00)
Tax Examiner (0.50)
Auditing Technician (5.50)

Business Tax and Valuation

Program Manager (5.00)
Tax Appraiser (9.00)
Tax Examiner (29.00)
Auditing Technician (5.00)

Income and Withholding Tax

Program Manager (6.00)
Management Analyst (3.00)
Tax Examiner (44.75)
Auditing Technician (21.70)

Montana Department of Revenue
Property Assessment Division
306.35 FTE

Property Assessment
Operations Manager (1.00)
Administrative Services Manager (1.00)
Administrative Assistant (2.00)

Region 1
Program Manager (4.00)
Data Control Specialist (1.00)
Tax Appraiser (34.00)
Tax Technician (22.00)

Management, Analysis, and Support
Program Manager (1.00)
Management Analyst (11.00)
Computer Programmer (2.00)

Region 2
Program Manager (5.00)
Data Control Specialist (2.00)
Tax Appraiser (28.00)
Tax Technician (22.50)

Region 3
Program Manager (5.00)
Data Control Specialist (2.00)
Tax Appraiser (44.50)
Tax Technician (20.50)

Region 4
Program Manager (6.00)
Data Control Specialist (1.00)
Data Control Technician (0.50)
Tax Appraiser (57.85)
Tax Technician (32.50)

Montana Department of Revenue
Director's Office
49.48 FTE

Director
(1.00)

Executive Office

Operations Manager (1.00)
Administrative Services Manager (1.00)
Administrative Specialist (1.00)
Administrative Assistant (2 - 0.50)
Program Manager (1.00)
Web Developer (0.73)
Public Relations Specialist (0.50)
Technical Writer (0.50)
Financial Manager (1.00)

Human Resources and Organizational
Development Office

Operations Manager (1.00)
Program Manager (1.00)
Human Resources Specialist (1.00)
Human Resource Assistant (4.00)
Training Development Specialist (1.00)

Legal Services Office

Operations Manager (1.00)
Lawyer (12.00)
Paralegal Legal Assistant (5.00)
Administrative Law Judge (1.75)
Program Manager(1.00)
Management Analyst (1.00)
Court Clerk (1.00)
Administrative Specialist (1.00)

Taxpayer Assistance Office

Operations Manager (1.00)

Tax Policy and Research Office

Operations Manager (1.00)
Economist (7.00)

Montana Department of Revenue
Information Management and Technology Division
86.75 FTE

Information Management and Technology

Operations Manager (1.00)
Administrative Services Manager (1.00)
Administrative Assistant (2.00)
Computer Application Engineer (1.00)

Information Management

Program Manager (5.00)
Management Analyst (5.00)
Accounting Technician (8.00)
Accounting Clerk (1.00)
Data Processor Technician (11.00)
Data Processor Clerk (4.00)
Data Processor Clerk - Aggregate (6.45)
Administrative Assistant (6.00)
File Clerk (3.00)
Mail Clerk (3.00)
Mail Clerk - Aggregate (1.30)

Information Technology

Program Manager (4.00)
Computer Systems Analyst (18.00)
Computer Programmer (1.00)
Computer Support Specialist (2.00)
Computer Security Specialist (1.00)
Project Facilitation Specialist (1.00)
Quality Assurance Analyst (1.00)

Montana Department of Revenue's Compliance Budgets, Revenue Collection Offer Significant Return on Investment

As a result of the recent recession, many states have experienced reduced budgets. Consequently, some states have conducted analyses in an effort to find which portions of their government's operating costs can be cut with the least effect on services and to total state budgets. Some states have experimented with reducing the budgets from active compliance and collecting other forms of revenue.

The consistent finding is that state departments charged with collecting voluntary and active compliance tax revenue provide a return of between six and thirteen dollars of additional revenue for each additional dollar of budget. Inversely, collection of tax revenue decreases by eight dollars for every one dollar removed from the budget as active compliance is reduced and the deterrent effect is diminished.

In 2009, California constituents lost an estimated \$465 million in tax revenue by reducing its Franchise Tax Board's compliance budget by \$65 million.

For example, according to the California Senate Office of Oversight and Outcomes, in 2009 the governor required furloughs of 5,300 workers at California's Franchise Tax Board in order to save an estimated \$65 million dollars in salaries. This resulted in an estimated 14% reduction in the number of hours spent on audit and collection activities and a corresponding reduction in personal, income, and corporate taxes of \$465 million, for a net overall loss of \$400 million (a loss of \$7.15 for every dollar saved).

Between FY 2006 and FY 2009, Montana constituents received an additional \$29,585,364 in revenue by investing \$2,310,800 in DOR compliance efforts, a return rate of \$12.80 for each dollar invested.

In contrast, in 2005 the Montana Legislature approved a DOR increase of \$1.12 million (per biennium) to fund services and operating costs to add 8 full-time employees for compliance activities. The employees were added in areas where other states have found significant non-compliance, namely individual income tax and corporate license tax – especially taxes owed by non-residents and out-of-state companies.

During the 2007 biennium, the DOR tracked the result of this investment and found in that biennium, the \$1,052,893 expenditure investment produced \$11,085,122 in additional revenue collected, a return of more than \$10.50 for each dollar invested.

During the 2009 biennium, the DOR continued tracking the return on investment in compliance. The results show expenditures of \$1,257,907, producing \$18,500,242 in additional revenue collected. This is a return of more than \$14.70 for each dollar invested.

Over the entire period from FY 2006 through FY 2009, the return was \$12.80 for each dollar invested.

Choices for Revenue Agencies, Including the Montana Department of Revenue, Have Consequences

As a standardized practice, other states and the federal government collect information and develop estimates of the additional (or reduction) in tax revenue received for each additional (or reduced) dollar in the compliance department's budget. The examples provided in the table below exemplify the benefits of investing in compliance and the consequences of cutting collecting agencies' budgets.

Revenue Generated (or Lost) From Additions (or Reductions) in Compliance Initiatives					
Government	Year	Investment or (Reduction)	Revenue or (Loss)	Return on Investment	Source
Federal (IRS)*	2007	\$11,100,000,000	\$44,400,000,000	4 to 1	1
Arizona	2009	(\$10,800,000)	(\$54,000,000)	5 to 1	5, 6
California - Board of Equalization	2009	(\$41,500,000)	(\$264,000,000)	6.4 to 1	2
California - Franchise Tax Board	2009	(\$65,000,000)	(\$465,000,000)	7.2 to 1	2
Idaho	2003	\$926,000	\$12,000,000	13 to 1	3
Kansas	2002	\$6,000,000	\$54,000,000	9 to 1	3
Kansas	2005	\$1,440,000	\$15,000,000	10.4 to 1	3
Minnesota	2003	\$10,300,000	\$97,200,000	9.4 to 1	3
Montana	2007	\$1,052,893	\$11,085,122	10.5 to 1	4
Montana	2009	\$1,257,907	\$18,500,242	14.7 to 1	4
New Mexico * (first year)	2009	\$5,000,000	\$29,000,000	5.8 to 1	3
New Mexico * (ongoing)	2010	\$5,000,000	\$45,000,000	9 to 1	3
Pennsylvania*	2009	(\$13,000,000)	(\$200,000,000)	15.4 to 1	7
Washington *	2009	\$10,700,000	\$67,800,000	6.3 to 1	3

* Projected

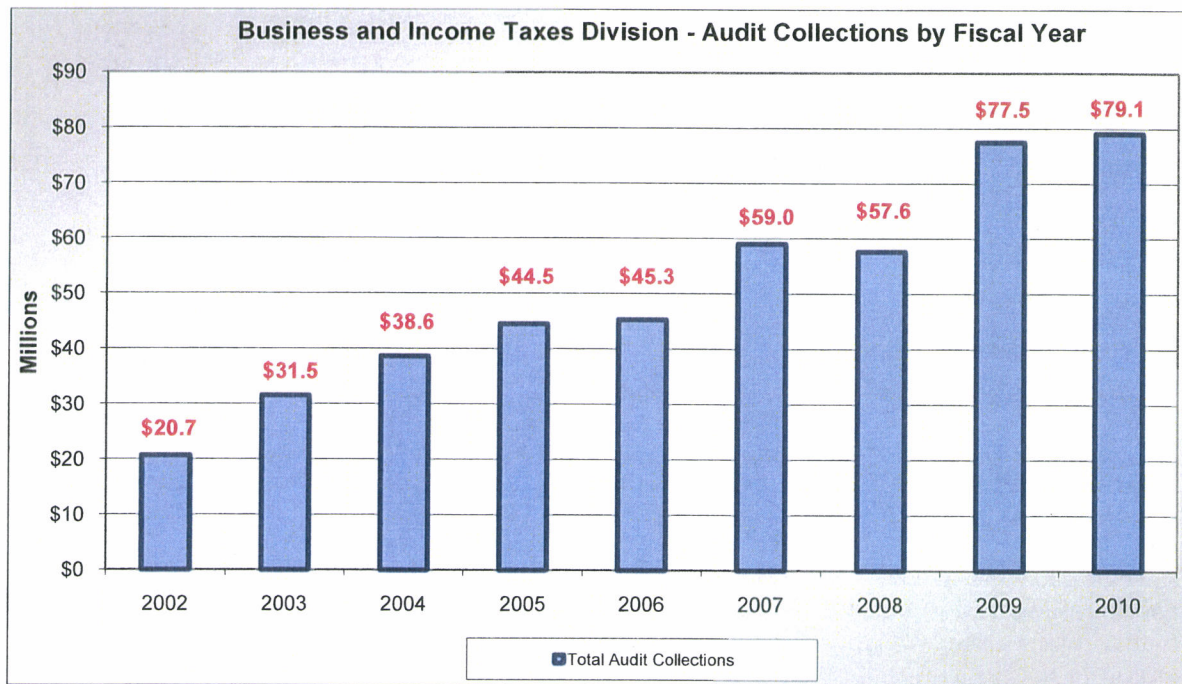
Sources:

1. Reducing the Federal Tax Gap - A Report on Improving Voluntary Compliance - Internal Revenue Service, U.S. Department of the Treasury - 8/2/2007.
2. Furloughs at the Franchise Tax Board: Loss is Seven Times Greater than the Savings - California Senate Office of Oversight and Outcomes - 2/12/2010.
3. Idaho's Tax Gap, 2009 Estimating Idaho's tax Gap and Developing Strategies to Reduce It - Idaho Tax Commission - 11/2009.
4. Montana Department of Revenue 2007 Biennium Compliance Package Collections by Month and 2009 Biennial Compliance Package Collections by Month.
5. Stronger Arizona - An estimate of state general fund losses as a result of Arizona Department of Revenue budget cuts.
6. Arizona Department of Revenue - Office of the Auditor General, "division analysis indicates corporate income tax audits result in \$15 in assessments for each \$1 spent, while audits of individual income taxes result in \$5 in assessments for each \$1 spent."
7. The Pennsylvania Budget and Policy Center: 30 Ways in 30 Days: Revenue Collections - Proposed Cuts to Revenue Department Penny Wise and Pound Foolish.

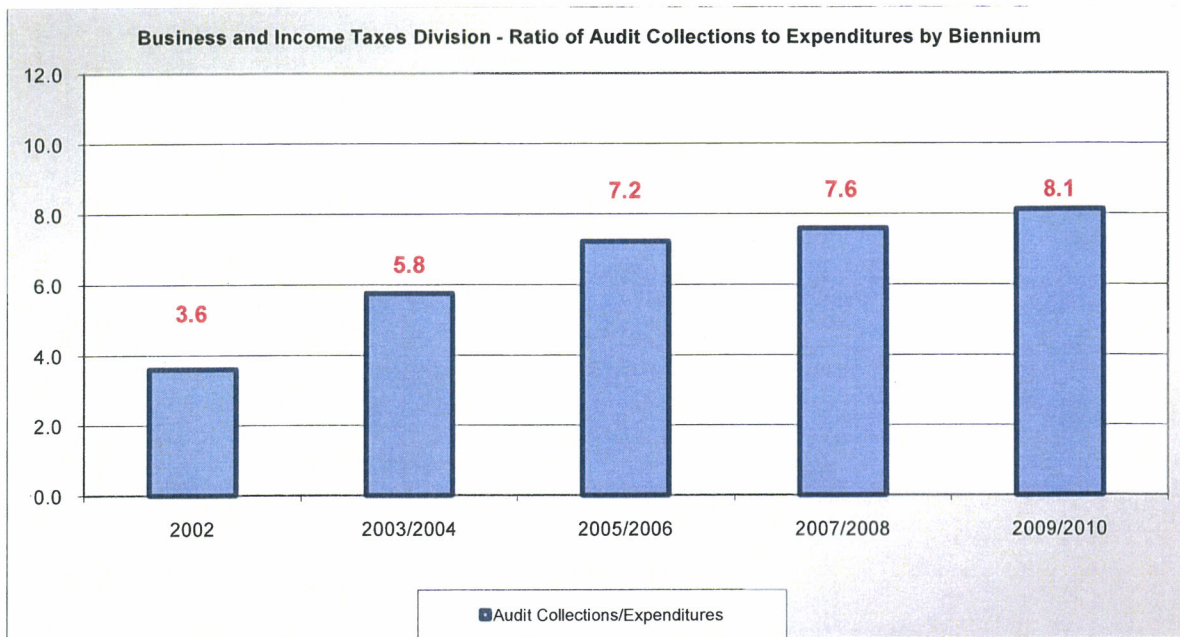
Overall Results of Montana Department of Revenue (DOR) Increased Compliance Efforts

Montana's recent compliance efforts have yielded increased tax collections. For each dollar the Montana Legislature has invested in compliance efforts, the DOR has returned from \$8 to almost \$15 in increased tax collections.

The table below demonstrates how effective investing in compliance efforts has been.



The second table (see next page) illustrates the overall return on investment the DOR has experienced with its compliance efforts. This ratio takes the audit collections from the above table and divides it by the amount that was appropriated for the Business and Income Taxes Division for each biennium. The overall return on investment of the Business and Income Taxes Division is lower than the marginal return on investment, which measures just the collections and expenditures of specific compliance programs.



What are the benefits of better tax compliance?

Fairness in Taxation: Honest and diligent taxpayers who pay the right amount of taxes on time are protected from having to pay even more taxes to make up for those individuals and businesses not paying their fair share under Montana law.

A Stronger, Growing Economy: The Montana economy grows on a sustained basis if taxes are equalized so that businesses compete on a level playing field and if proper revenues are returned from out-of-state to flow through this state once again.

A Brighter Future for All Montanans: The future for all Montanans is improved through efficient public services, solid infrastructure and investments in education for higher paying jobs.

Successfully Reducing the Tax Gap – Idaho's Experiment

As a state level example, in November of 2009 the Idaho Tax Commission produced a report, *Idaho's Tax Gap*, estimating Idaho's tax gap at \$255,000,000 and developing strategies to reduce it. (In times of budget shortfalls, shrinking the tax gap is a common method employed to increase revenue without increasing taxes.) This report includes three separate methods for estimating Idaho's tax gap, methods for reducing the tax gap, and a discussion of investments in tax compliance, proven return on investment, the multiplier effect, the opposite effect of reducing returns to investment, and the unintended consequences of "across the board" (including revenue collection agencies) budget cuts.

The major finding of Idaho's research was that reducing the tax compliance budget leads to a projected reduction in tax revenue that is 10 times greater than the expenditure budget, a 10-to 1 ratio of revenue reduction.

Unrealized potential for both Idaho untapped noncompliance measures are presented below. Idaho's data comes from *Idaho's Tax Gap, 2009*.

Tax Discovery

Idaho's Tax Discovery Bureau found 55,000 potential cases of individual income tax non-filers in 2009, and were only able to work about 5,000 of these cases. Although, each added employee creates around \$1,000,000 in additional revenue, there existed four vacancies, indicating potential gains from investment.

Front Line Phone Agents

Idaho's "Phone Power" front line of collection agents collect, on average, more than \$2,000,000, per year, per person, and had four vacancies.

Compliance Technicians and Compliance Officers

Idaho's compliance technicians and compliance officers work in tandem by phone, mail, and in the field. On average, they collect an estimated \$1,000,000 per person, per year. In 2009, they had six vacancies.

Auditors and Audit Technicians

Idaho's auditors and technicians collect, on average, \$400,000 per person, per year. In 2009, they had 10 vacancies.

Investments in Tax Compliance

In 2003, another year of budget shortfalls, Idaho's governor boosted the Tax Commission's compliance budget by \$926,000, allowing the creation of new compliance positions, which, in turn, produced a return of \$10,000,000, an average return on investment of \$13 in additional revenue to \$1 of increased budget. According to the Idaho Tax Commission, this ratio seemed reasonable when compared to the return on investment from other state's compliance efforts.

Federal Tax Gap and Compliance

In 2007, the Internal Revenue Service produced a report on improving voluntary compliance estimating, "the overall (federal) gross tax gap [estimated] to be approximately \$345 billion" and the "overall return from new investments in compliance averages 4:1" (page 2, IRS).

Summary

The statutory duty of the Montana Department of Revenue (DOR) is to administer the revenue laws as created by Montana's Legislature. Similar to the cashier at the restaurant, the product of the DOR is collected taxes, which are redistributed as revenue to local governments and state agencies.

The DOR is made up of six interrelated parts that work together to produce local and state revenue. Either through direct revenue collection or through operational support, each part of the DOR is vital to tax revenue collection.

Tax revenue collection is made up of voluntary compliance and active compliance. The DOR supports active compliance by providing the necessary framework that allows taxpayers to contribute their fair share of tax revenue in a timely manner.

When appropriate, the DOR uses active compliance measures to induce compliance. Like any other law under enforcement, voluntary compliance is directly related to the amount of resources allocated to active compliance measures by way of the deterrent effect. Montana and other states (as well as the federal government) understand the large return on investment that can be secured by increasing the budget for compliance.

Unfortunately, other states (Arizona, California, and Pennsylvania) have attempted to balance state budgets by removing resources previously allocated to their tax collection agencies. All three states experienced or predict large revenue losses from these shortsighted actions, ranging from a \$729 million loss in California to a \$54 million loss in Arizona.

On the other hand, due to a \$2,310,800 investment between FY2006 and FY2009, the DOR in Montana collected an additional \$29,585,364 in active compliance tax revenue, while ensuring that constituents were treated fairly under Montana's tax laws. Other states have had similar results and have been able to increase state and local revenue without having to increase taxes.

**"Investing in tax compliance to reduce the tax gap is a
revenue-producing alternate to raising taxes"
(Idaho Tax Commission, 2009)**

Information Sources

1. IRS - Reducing the Federal Tax Gap – A Report on Improving Voluntary Compliance, Internal Revenue Service – U.S. Department of the Treasury, August 2, 2007.
 - a. www.irs.gov/pub/irs-news/tax_gap_report_final_080207_linked.pdf
2. Idaho Tax Commission - Idaho's Tax Gap, 2009 – Estimating Idaho's Tax Gap and Developing Strategies to Reduce It.
 - a. tax.idaho.gov/reports/EPB00658_11-17-2009.pdf
3. Federation of Tax Administrators (FTA) – Threads discussing Tax Gap and return on investment from tax compliance initiatives.
 - a. www.taxadmin.org/

Additional Reading Used for this Report

1. Montana Department of Revenue Organizational Structure
 - a. revenue.mt.gov/abouttheagency/organizational_structure/default.mcp
2. Montana Department of Revenue 2011 Biennium Goals and Objectives
 - a. revenue.mt.gov/content/abouttheagency/dept_goals/2011_Biennium_Goals_and_Objectives.pdf
3. Reducing the Federal Tax Gap – A Report on Improving Voluntary Compliance, Internal Revenue Service – U.S. Department of the Treasury, August 2, 2007
 - a. www.irs.gov/pub/irs-news/tax_gap_report_final_080207_linked.pdf
4. Deterrent Effect
 - a. www.allbusiness.com/legal/trial-procedure-fines-penalties/15179929-1.html
 - b. www.redbubble.com/people/fiateuro/journal/388894-the-phenomenon-of-tax-evasion
 - c. www.abanet.org/tax/pubs/newsletter/07fal/tax_gap.pdf
 - d. Witte R. D. and Woodbury. (1985) "The Effects of Tax Laws and Tax Administration on Tax Compliance: The Case of The U.S. Individual Income Tax". National Tax Journal.
 - e. www.nber.org/papers/w3078.pdf
 - f. [www.pacificeconomicsgroup.com/jad/Tax%20Cheat%20\(1982\).pdf](http://www.pacificeconomicsgroup.com/jad/Tax%20Cheat%20(1982).pdf)